**Request No. DTE 2-38:**
Refer to Exhibit FGE-MHC-1 (Electric) at 30. Please describe the decision-making process undertaken by the Company in concluding that it would not be cost-effective to perform a full lead-lag study for operating and maintenance expense.

**Response:**
The Company prepared an RFP which was used to solicit bids for a combined electric and gas full lead-lag study for operating and maintenance expense. This RFP is provided in Request No. DTE 2-36. Based on that RFP, FG&E received bids from two vendors. These bids are provided in Request No. DTE 2-37.

FG&E compared the estimated cost of the full lead-lag study to the estimated overall cost of its electric and gas rate cases. The electric rate case costs are estimated to be $751,750, which includes $325,000 of estimated legal costs (Schedule MHC-7-13 (Electric)). The gas rate case costs are estimated to be $495,750, which includes $175,000 of estimated legal costs (Schedule MHC-7-16 (Gas)). These estimates do not include the estimated cost of the full lead-lag study. FG&E felt that the estimated cost of the full lead-lag study was high relative to the estimated overall cost of its electric and gas rate cases, particularly when the estimated legal costs are factored out.

FG&E then reviewed the results of ten other utilities' "Other O&M" lead/lag studies (Please refer to Common Discovery* Attachment DTE 2-38, page 2 of 2) and determined that the 45-day convention for Other O&M Cash Working Capital continues to be reasonable.

Additionally, FG&E performed an analysis (Please refer to Common Discovery* Attachment DTE 2-38, page 1 of 2) to determine the probability that benefits derived from completing a full lead-lag study would exceed the cost of the study. This analysis, which was performed using each of the two bids received, indicates that the probability of the benefits of a full lead-lag study exceeding the costs would be less than 30% in either case.

Based on the significant estimated cost of a full lead-lag study relative to FG&E's overall estimated rate costs, FG&E's review of other utilities' lead-lag studies and the probability analysis performed by FG&E, the conclusion was reached that it would not be cost-effective to perform a full lead-lag study for operating and maintenance expense.

*Common Discovery is any attachment that is identical for D.T.E 02-24 and D.T.E. 02-25.

**Person Responsible:** Mark H. Collin